



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MERCER COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

April 22, 2001

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MERCER COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES

April 22, 2001

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Mercer County Sheriff as of April 22, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected net taxes of \$5,107,444 for the districts for 2000 taxes. The Sheriff distributed taxes of \$5,104,103 to the districts for 2000 Taxes. Taxes of \$21 are due to the districts from the Sheriff and refunds of \$19 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2000 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles McGinnis, Mercer County Judge/Executive

Honorable Ralph Anderson, Mercer County Sheriff

Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the Mercer County Sheriff's Settlement - 2000 Taxes as of April 22, 2001. This tax settlement is the responsibility of the Mercer County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Mercer County Sheriff's taxes charged, credited, and paid as of April 22, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 11, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles McGinnis, Mercer County Judge/Executive

Honorable Ralph Anderson, Mercer County Sheriff

Members of the Mercer County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following reportable condition.

- Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
July 11, 2002

MERCER COUNTY
RALPH ANDERSON, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

April 22, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 535,600	\$ 1,067,496	\$ 1,745,060	\$ 920,971
Tangible Personal Property	52,108	82,600	187,391	261,650
Intangible Personal Property				107,541
Fire Protection	166			
Increased Through Erroneous Assessments	40,838	389	598	318
Franchise Corporation	64,718	143,145	250,495	
Additional Billings	2,025	2,965	10,675	3,700
Limestone, Sand, and Mineral Reserves	79	186	411	136
Penalties	4,115	8,290	12,170	7,264
Adjusted to Sheriff's Receipt		11	1	4
Gross Chargeable to Sheriff	<u>\$ 699,649</u>	<u>\$ 1,305,082</u>	<u>\$ 2,206,801</u>	<u>\$ 1,301,584</u>
<u>Credits</u>				
Exonerations	\$ 2,781	\$ 5,943	\$ 10,591	\$ 4,791
Discounts	9,872	17,515	30,432	20,895
Delinquents:				
Real Estate	11,713	24,126	30,857	20,140
Tangible Personal Property	<u>700</u>	<u>1,611</u>	<u>713</u>	<u>2,829</u>
Total Credits	<u>\$ 25,066</u>	<u>\$ 49,195</u>	<u>\$ 72,593</u>	<u>\$ 48,655</u>
Net Tax Yield	\$ 674,583	\$ 1,255,887	\$ 2,134,208	\$ 1,252,929
Less: Commissions *	<u>28,957</u>	<u>42,301</u>	<u>85,368</u>	<u>53,537</u>
Net Taxes Due	\$ 645,626	\$ 1,213,586	\$ 2,048,840	\$ 1,199,392
Taxes Paid	645,190	1,212,667	2,047,673	1,198,573
Refunds (Current and Prior Year)	<u>434</u>	<u>934</u>	<u>1,156</u>	<u>815</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 2</u>	<u>** (15)</u>	<u>\$ 11</u>	<u>\$ 4</u>

MERCER COUNTY
 RALPH ANDERSON, SHERIFF
 SHERIFF'S SETTLEMENT - 2000 TAXES
 April 22, 2001
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,832,644
4% on	\$	2,134,208
1% on	\$	340,755

** Special Taxing Districts:

Library District	\$	2
Health District		1
Extension District		1
Fire District		(19)

Due Districts or (Refund Due Sheriff)	\$	<u>(15)</u>
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The accompanying notes are an integral part of the financial statement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

April 22, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 22, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
April 22, 2001
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2000 through April 22, 2001.

Note 4. Interest Income

The Mercer County Sheriff earned \$9,577 as interest income on 2000 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Mercer County Sheriff collected \$23,798 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Mercer County Sheriff collected \$605 of advertising costs and \$3,030 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

MERCER COUNTY
RALPH ANDERSON, SHERIFF
COMMENT AND RECOMMENDATION

April 22, 2001

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited number of staff responsible for duties associated with the tax settlement. While monthly reports are prepared by an outside organization, all other duties related to internal control structure are performed by the bookkeepers. Even though the Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements, no compensating controls are performed. Therefore, management has decided to limit the number of personnel responsible for duties associated with the tax settlement and accepts the risk for a lack of adequate segregation of duties. In order to offset this internal control weakness, we recommend the Sheriff assign duties to another deputy. Duties that should be separated include preparing deposits, reconciling bank statements, opening mail, and preparing and distributing checks. Another employee should document performing these duties by initialing and dating documentation.

Sheriff's Response:

I understand the comment on segregation of duties.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Mercer County Sheriff's Settlement - 2000 Taxes as of April 22, 2001, and have issued our report thereon dated July 11, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Mercer County Sheriff's Settlement - 2000 Taxes as of April 22, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mercer County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 11, 2002

